Democratic Policy Committee
United States Senate
Washington, D.C. 20510-7050
Tom Daschle, Chairman
Byron Dorgan, Co-Chairman

DEMOCRATIC POLICY COMMITTEE

SPECIAL REPORT

February 1, 2000
Publication: SR-48-Agriculture

Most Asked Questions on Farm Policy

DPC Staff Contact: Jonathon Lehman (202-224-3232)
DPC Press Contacts: Ranit Schmelzer (202-224-2939)
Barry Piatt (202-224-2551)

Most Asked Questions on Farm Policy

What is wrong with "Freedom to Farm"?

The principal shortcoming of the 1996 farm bill, also known as *Freedom to Farm*, is that it failed to provide producers with an adequate income safety net. While Democrats and Republicans together supported farm bill proposals to increase planting flexibility and reduce government intrusion in individual farm management, Democrats also fought for the inclusion of policies that would have provided greater income stability in times of low prices. It is the lack of this component that has led to record Federal disaster spending over the past two years, a response to unrelenting low prices across all commodities that have induced seriously depressed farm income.

What does the current farm policy mean for farmers?

The last two years of devastatingly low prices and continuing record-level production are decimating the smaller, independently operated farms and ranches that are so integral to the economic and social stability of rural America. For example, the Minnesota Farm Service Agency recently predicted the State will lose 6,500 farmers this year. Despite the persistent loss of farmers, the number of harvested acres has held relatively stable, which means surviving farms are getting bigger.

Is current farm policy having broader consequences?

As more and more small farms and ranches are lost, the rate of out-migration from these rural communities increases. This strains Main Street businesses, education, health care, and other public services. The loss of family farms also has implications for the way our natural resources are managed.

In rural America, the link between small farms, population, and community institutions is well documented. As small farms disappear, so does the community's tax base. For example, in Tama County, Iowa, more than 56 percent of property tax revenues stem from agricultural land and buildings. As farmers and ranchers go out of business, rural areas lose there tax base and economies falter.

The loss of farms and ranches directly impacts education. As out-migration intensifies and the tax-base dwindles, many communities can no longer support their schools. In many rural areas, school districts are the largest employer. When a school closes as a result of lost population, the consequent loss of a major source of employment further exacerbates out-migration levels. When enough farms fail, and enough agriculturally dependent jobs are lost, and enough families leave an area, Main Street businesses are forced to close. This scenario has played itself out across the country. For example, the town of Michigan, ND, with a population of 430, lost an implement dealership, a car dealership, and a diner in one month due to the lack of customers resulting from the farm crisis.

Finally, the loss of small farms and ranches does not only impact a region's economy, it also has implications for the environment and food safety. America's farms and ranches produce many benefits for the Nation, not the least of which is sensible management of our Nation's natural resources. A recent study by the American Farmland Trust confirms that small farmers and ranchers have a strong sense of responsibility for the stewardship of the natural resources under their control. As farmers and ranchers are squeezed off the land, the environmental benefits of well-managed farmland are lost.

Should we rely on AMTA payments for an income safety net?

When *Freedom to Farm* was enacted in 1996, the link between government payments and farm prices was eliminated, leaving producers vulnerable to poor market conditions. Wheat, feed grain, cotton and rice producers could enter into production flexibility contracts whereby they would receive *Agricultural Market Transition Act* (AMTA) payments based on eligible acreage enrolled in the program, not based on farm price.

These fixed income support payments have proven fiscally irresponsible. Payments in 1996 and 1997 were made irrespective of record high market prices. The last two years have shown that when prices are sufficiently low AMTA payments do nothing to keep ad hoc disaster packages under control. In fact, Congress has been forced to wrestle with multi-billion dollar bailouts to redress (in the short-term) the failings of current farm policy in order to respond to the drastically declining commodity prices. In 1998, Congress passed a $6 billion dollar emergency package, and in

1999, Congress enacted an $8.7 billion package. The resulting delays in receiving these ad hoc government payments has only increased the economic strain on producers.

In addition, there is little assurance that AMTA payments will go to those in need. Studies have confirmed that the current farm law favors big farm operators and absentee landowners over the family farmer. One recent study indicates that half of all agriculture payments under *Freedom to Farm* have gone to just 12 percent of agriculture payment recipients in Iowa. Another estimate by Dr. Robert Taylor, an Agricultural Economics Professor at Auburn University, suggests that as much as one-half of the payments are disbursed to absentee landowners.

AMTA payments do not make sense as a permanent policy. This system of payments fails to provide adequate income support to family farmers who need it most and is fiscally irresponsible.

Would reforming the Federal crop insurance program reduce the need for a meaningful income safety net?

There are two conditions over which producers have no control, which can be equally devastating, causing large numbers of farms to be wiped out in a very short time frame—production failure due to poor weather, and price failure due to poor markets. Crop insurance is designed to address the former; it does not address the latter.

The Federal Crop Insurance system is designed to help farmers offset the risk of crop loss due to adverse weather. Although reforming crop insurance to address such things as producer costs, ability to address multiple years of disaster, and inadequate coverage of specialty crops is important, it cannot serve as a comprehensive safety net for farmers and has not guaranteed price.

Would increasing agricultural exports reduce the need for a meaningful income safety net?

Under *Freedom to Farm,* trade and food aid programs were expected to free farmers and markets from government intervention, with the assumption that market forces would foster new export market development.

What *Freedom to Farm* lacks, however, is a mechanism to address the economic impacts resulting when the value of exports declines.

In 1996, forecasts projected strong economic growth throughout much of Asia, which would result in increased demand for U.S. agricultural products throughout this decade. These projections did not come to fruition. Freedom to Farm has left farmers and ranchers vulnerable to failing export markets and bearing the risk in the global marketplace.

Is the farm economy turning around on its own?

Prices for agricultural commodities continued to decline in 1999 with USDA forecasting little chance of rebound in 2000, due to the Asian financial crisis and record production globally.

For example, soybean prices have dropped from a season-average of $7.40 in 1997 to $4.56 in 1999, a 38 percent decline in just two years. Corn prices have fallen 53 percent from a season-average price of $3.55 in 1996 to $1.88 in 1999. A bushel of wheat was selling for a season-average price of $2.57 in 1999 while just four years earlier it was selling at $4.77, nearly double the current price. Cotton prices also are on the decline. The season-average price has fallen from 74 cents a pound in 1996 to just over 50 cents in 1999. The decline is not just being felt in the crop sector. Hog prices plummeted from a season-average of $53.28 per cwt in 1996 to $32.20 in 1999 with a December, 1998 low of $14 per cwt.

Decreasing farm commodity prices have begun to erode farm finances. According to USDA, farm income will drop 20 percent from 1999 levels. Studies conducted by USDA have shown that the number of farms in economically stressed and vulnerable positions have increased in recent years due to low prices. In addition, declining incomes resulting from the persistence of low commodity prices in 2000 will further aggravate cash-flow problems for farm businesses in several regions of the country. According to USDA, one in four producers will not be able to cover cash expenses in 2000 in most regions of the country. This will result in increasing farm debt, eliminating some farmers' credit reserves and exposing a larger share of farms to potential debt repayment problems.

Will Congress enact another disaster bailout in 2000, irrespective of progress on policy reform?

There is no guarantee of another emergency package this year. The problem with relying on arbitrary and politically driven ad hoc disaster packages, instead of sound farm policy, is that farmers and ranchers never know whether a disaster package is coming, how far it will go, or what form it will take. In short, farmers and ranchers have no benchmark to make decisions for the upcoming year. In 1998, Congress enacted a $6 billion emergency package which focused primarily on weather-related disasters. In 1999, Congress passed an $8.7 billion package which focused primarily on the impact of low prices. Neither package addressed the problems resulting from *Freedom to Farm* and the delay and uncertainty added to the economic strain being felt by farmers and ranchers.

What is the Democratic alternative to *"Freedom to Farm"?*

Democrats have been fighting for the inclusion of an income safety net in our Federal farm policy since passage of *Freedom to Farm* in 1996. Producers appreciate the planting flexibility associated with the last farm bill, and the reduction of government intrusion in their individual management decisions that both Democrats and Republicans support. What producers say has hurt them is the absence of any policy to offset the financial shock of severe and ongoing price collapse that takes the greatest toll on family farms, the segment of the agricultural economy most essential to the survival of rural communities.

Democrats believe farm policy should be rewritten with the following objectives in mind:

- **It should provide targeted payments.** There is a broad public benefit to a diverse agriculture sector that includes a significant proportion of family farms. Payments should be targeted to these operations because they are the most likely to succumb to the ongoing economic stress.
- **It should be available to all producers.** An income safety net should not be restricted to producers of a limited number of crops like the current farm bill, but should be available to livestock producers as well.

- **It should be fiscally responsible.** Federal spending should be less in good years, and increase only when the market fails. Payments should provide income stabilization to keep farmers and ranchers operating during conditions beyond their control that would otherwise force them off the farm.
- **It should provide incentives for sound management.** Policies should not provide incentives to plant fence-row-to-fence-row at times of record production and limited markets.
- **It should be balanced and equitable.** It should combine policies that provide complementary benefits for society and that will be responsive to the litany of market problems producers encounter.